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GENERAL

1. Yugoslavia will reportedly make strong demands at London talks on Trieste:

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The Yugoslav government will remain firm during the forthcoming London talks in its demands for access to the free port of Trieste,

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: Italian insistence on a continuous coastal strip from Monfalcone to Pirano would be "unfortunate," and that Yugoslavia will insist on obtaining sovereignty over a corridor through Zone A to the sea, preferably at Zaule.

Although not in a position to finance the construction of a port at Zaule, Yugoslavia feels it can use its control over the area as a lever to ensure Italian guarantees of economic cooperation. The Slovene minority question is also viewed as a major obstacle to settlement.

Yugoslav leaders reportedly believe that the American and British representatives at London will in effect be acting on behalf of Italy.

Comment: The United States, Britain, and Yugoslavia, as the three occupying powers in Trieste, will meet in London on 2 February to attempt to establish a realistic basis for negotiation of a definitive Trieste solution.

This report indicates no significant change in the Yugoslav position in the past three months. It is highly improbable that any Italian government would accept a solution giving Yugoslavia sovereignty over a corridor through Zone A.

2. Afghanistan signs \$3,500,000 credit agreement with USSR:

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Afghanistan and the Soviet Union have signed an agreement for the construction by Soviet technicians during the next three years of two grain warehouses, a flour mill, and a bakery near Kabul. The costs will be covered by a \$3,500,000 credit at three percent interest, which Afghanistan is to begin repaying in 1957 with cotton, wool, and oilseeds.

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The American embassy in Kabul comments that the new facilities should help greatly in coping with food shortages and controlling grain prices. Some elements, however, are uneasy over the prospect of Soviet activities spreading into southern Afghanistan.

Comment: This agreement apparently finalizes negotiations under way for nearly two years. Five Soviet technicians arrived in Kabul in April 1953 to plan construction of grain silos.

This is the second known instance in which the USSR has made a written commitment to provide Soviet technicians in a non-Orbit country. The first was in the Soviet-Indian trade agreement of December 1953.

3. Soviet chargé comments on Sino-Soviet economic relations:

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The Soviet chargé in Rangoon told [redacted] [redacted] that the USSR is delighted with the American refusal to trade with Communist China, as Soviet trade with China is now "increasing enormously." He said that the economies of the two countries are being rapidly integrated and a long-term demand for Soviet replacement parts is being created.

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The Soviet diplomat reportedly added that time is on the USSR's side, and that the longer the Western "blockade" continues, the greater will be the possibility for establishing a Soviet economic stranglehold over China.

Comment: These remarks may have been planted to support the case of Western traders who favor a lowering of trade barriers and to test the strength of support for the current Western embargo program.

SOVIET UNION

4. Soviet tanker construction in Black Sea area revealed:

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[redacted] official Soviet publications provide the first evidence of tanker construction in the Black Sea area as part of an effort to relieve the Soviet tanker deficiency.

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The building program at the Marti yard in Leningrad and at a Black Sea shipyard has included at least six ships of 7,900 gross tons each. Three of the tankers have been put into service, two are being fitted out, and one is still under construction.

In addition to these six tankers, the USSR has an ocean-going tanker fleet of 38 vessels, 22 of which are smaller than 2,500 gross tons.

The present construction program may reflect the success of Western export controls. Since 1951 the USSR has acquired two large tankers and at least 12 smaller ones from Western yards. As a result of the COCOM embargo on tanker sales and construction, however, the USSR can now count only on Finland for further tanker building in the West.

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FAR EAST

25X1A 5. Rhee pressuring Magsaysay to lead Asian alliance:

Chinese Nationalist foreign minister Yeh told Ambassador Rankin that Syngman Rhee recently urged Philippine president Magsaysay to assume leadership in obtaining a Far East anti-Communist pact. Yeh said his government agrees with Rhee but feels he is pushing the matter too hard.

According to Yeh, Rhee assumes the United States will persuade Magsaysay to accept the proffered leadership.

Comment: Rhee has reportedly been planning a conference this spring of anti-Communist Asian nations. He probably desires to dominate such a meeting, but not openly.

Magsaysay, who is reluctant to identify himself closely with Rhee and Chiang, has stated he must complete necessary reforms in the Philippines before entering the international scene.

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SOUTHEAST ASIA

6. British official comments on situation in Malaya:

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A senior British official at the Berlin conference showed surprise when informed of Foreign Secretary Eden's statement that the situation in Malaya was deteriorating. He told a member of the American delegation that Eden's statement may have been based on a belief that the emergency in Malaya would probably continue indefinitely, with no prospects of an early reduction in British military forces there.

Comment: British officials in Malaya have admitted that the emergency will continue indefinitely, but have not even suggested that the situation is worsening.

7. Burma may conclude rice deal with India:

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The Burmese prime minister told the British ambassador in Rangoon recently that he was hopeful a rice sales agreement with India would soon be concluded, and that trade negotiations with Communist China and the USSR were only in the exploratory stage. The American embassy in Rangoon reports that it has received similar information

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According to the embassy, Burma's policy of demanding inordinately high prices for its rice has been based on inadequate marketing information and a vague hope that time was on its side. The Burmese are now considering price reductions, though they may not be sufficient to satisfy the Indians.

Comment: A large sale of rice to India would greatly reduce the pressure on the Burmese government to make economic commitments to the Orbit. India is in a strong bargaining position, however, because of its current bumper crop.

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NEAR EAST - AFRICA

25X1A 8. Papagos urges that Greek armed forces be reduced:

[Redacted]

Prime Minister Papagos emphasized to General Gruenther in Paris on 26 January that Greek defense expenditures cannot be maintained at their present level. He said

that his government would face financial difficulties unless it reduced its defense budget or received additional American aid. He felt that his country's armed forces could be reduced without danger, as the Greek-Yugoslav-Turkish pact had improved Greece's defensive capabilities and Greece would now have sufficient advance warning of any aggression.

Comment: Although Papagos apparently is willing to postpone any move to reduce the armed forces until after a Greek-American study, sentiment favoring a cut is widespread in Greece. The government, whose popularity rests primarily on the success of its economic reforms, may be expected to press seriously for NATO agreement to such a reduction.

WESTERN EUROPE

25X1A 9. Adenauer dissatisfied with plan for protection of East Germans after election:

[Redacted]

Chancellor Adenauer has reportedly expressed concern over the Allies' rejection of his proposal for separate East German elections simultaneous with all-German elections.

On 29 January the West German delegation in Berlin suggested to the Western tripartite working group that even before an all-German government is formed, the proposed constituent assembly should have power to legislate for the protection of the East Germans.

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Comment: Adenauer is not convinced that the non-German control mechanism which would be set up to supervise all-German elections could shield the East Germans from postelection retaliatory acts by the Communist regime. His plan, regarded as overly cautious by most Bonn leaders, is to "cut the hands off" the present East German regime by holding separate East German state elections, reducing the East German armed forces beforehand, and giving interim legislative power to the constituent assembly.

10. French Socialist Party rejects popular front with Communists:
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According to the American embassy in Paris, the French Socialist Party's resolution of 28 January was its first official rejection of Communist designs to form a popular front. The

party's central committee denounced the Communist Party as an agent of Moscow, and warned party members against any common action with Communists and particularly against signing any declarations "against the Bonn and Paris accords."

The embassy sees the resolution as indicating that the pro-EDC faction is still dominant in the party. It also comments that the resolution has caused further speculation on the Socialists' role in any new government, which prominent observers have recently predicted would be a left-center coalition.

Comment: The resolution may convince Premier Laniel that the present EDC treaty stands a better chance for ratification than would a version watered down to please the ex-Gaullists.

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